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C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 001606

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DEPT PLEASE PASS USTR (DOUG BELL, GREG HICKS)

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SUBJECT: COMMERCE MINISTER SEEKS CONTINUED US SUPPORT ON ALGERIA'S WTO ACCESSION

REF: HICKS-PIGNATELLO EMAIL 7/29

Classified By: Ambassador Richard W. Erdman, reasons 1.4(b)(d).

SUMMARY

¶1. (C) In a July 30 courtesy call with Commerce Minister El Hachemi Djaaboub, Ambassador delivered USTR talking points (ref) that underscored USG support for Algeria's WTO accession and raised issues for Algeria to address more thoroughly in both bilateral market access and multilateral negotiations. Djaaboub strongly reaffirmed Algeria's commitment to completing the accession process in the shortest time possible and instructed External Commerce Director General Zaaf to provide a revised services offer before the end of August, as we requested. Djaaboub and Zaaf commented on issues raised in Geneva, noting that Algeria no longer maintained monopolies or subsidized failing state enterprises from the state budget. Zaaf also repeated that Algeria sought 'observer status' for the Civil Aviation Agreement, claiming this is what many other new WTO adherents have done before committing to zero tariffs in this sector. While Zaaf did not specifically mention audio-visual, he said there would be a new services offer on energy and that Algeria was working on proposals for the information technology, construction equipment, paper, and wood agreements. Djaaboub welcomed receiving specific comments from USTR about shortcomings in Algeria's earlier responses; stated his intention to be as transparent as possible in this process; and solicited Ambassador for continued US "support and intervention" during the remainder of the accession process. Ambassador reiterated USG offers of technical assistance and encouraged Djaaboub to play a leading role in government councils in order to ensure rapid progress. Ambassador also reviewed the USTR talking points the following day with Privatization Minister Temmar, who continues to have an informal oversight role on Algeria's accession. END SUMMARY.

STATUS CHECK: OUTLINING
BOTH PROGRESS AND GAPS

¶2. (C) Ambassador met new Commerce Minister El Hachemi Djaaboub July 30 to discuss WTO accession progress and deliver USTR talking points on the July 21 informal meeting in Geneva. The points underscored US support for Algeria's WTO accession, cited both progress and gaps in bilateral and multilateral negotiations, and identified several areas where Algeria should give revised offers and provide additional information. After reviewing the talking points (in French), Ambassador, noting he was speaking frankly and as a friend, said some of the Algerian responses to the questions posed had lacked clarity or were incomplete, and at least one question was not answered at all. Some Algerian comments had also left the impression that GATT Articles 3, 11, and 17 may not have been properly understood by the Algerian side. This was partly a matter of communication, since in the past we had often found Algeria had in fact taken the necessary steps, when pressed for clarification. External Commerce Director General Zaaf claimed that the Algerian delegation did, in fact, address the issues of state subsidies and state monopolies: there were neither subsidies nor special privileges for state-owned enterprises (SOEs). Zaaf was certain that Algeria had answered these questions in the June 21 responses.

¶3. (C) Djaaboub agreed with Zaaf that the state did not give handouts to SOEs. Ambassador replied that he had heard state banks still gave loans to SOEs without applying the same criteria they would to other applicants, which the Minister denied. Commercial relations existed between SOEs and the banks, Djaaboub said, but there was no longer a direct link between the state budget and SOEs. (Comment: While SOEs may no longer be paid directly out of the state budget, state control of the public banks that do the vast majority of lending implies a political relationship between public banks and public companies. We do not think the GOA would prematurely sever SOEs' relationships with public banks and risk the politically unacceptable results. End Comment.) However, the Minister added that they were "not trying to trick anyone." There simply were no subsidies. With

apparent sincerity, he said that it was Algeria's intention to pursue the accession process in "total transparency," and Algeria was sure to succeed if it emulated US and EU leadership on open markets. Thanking the US for its ongoing support for Algeria's accession efforts, Djaaboub requested continued US "support and intervention" during the remainder of the accession process, including the September 16 informal and October 21 Working Party meetings.

COMMERCE MINISTER CHAIRS A NEW
COMMISSION TO REVIEW ALL WTO WORK

14. (C) The Minister thanked Ambassador for his frank presentation. Describing how the question and answer has worked, he said that questions on specific sectors were dispatched to the individual Algerian agencies responsible. Agencies often answered questions in different styles, which could lead to confused, incomplete answers. The Minister now chaired a newly formed central commission to edit all WTO documents and ensure consistency of replies. He added that the GOA had, in fact, done a thorough "cleaning" of legal texts by reviewing executive decrees to ensure WTO conformity. He said his prior experience in responding to WTO questions as Minister of Industry would give him more perspective on the process.

AREAS FOR IMPROVEMENT:
BILATERAL NEGOTIATIONS

15. (C) Civil Aviation Agreement: Orally translating the talking points, Ambassador said the USG would provide Algeria with a specific request on manufacturing tariffs following verification of Algeria's incorporation of Civil Aviation Agreement zero tariffs into the offer. Zaaf replied that, with 3,000 items in the Agreement, the Agreement was too lengthy for a "developing country" like Algeria to address. He said that Algeria would like to do "what other countries have done," which is to agree to observer status before taking on broad commitments in this area. In the areas of information technology, construction equipment, paper, and wood, Algeria was already crafting proposals to join agreements.

16. (C) Energy: Ambassador said that progress on services depended on our receipt of a revised offer. Zaaf replied that Algeria was reviewing proposals for energy to include in its services offer. He said there would likely be an answer in time for the September 16 meeting, prompting Djaaboub to instruct Zaaf on the spot to produce the paper before the end of August, so the US could have time to review the energy proposal before the meeting. As an indication of the GOA's commitment to the accession process, Djaaboub noted that Commerce staff were giving up their vacations to work on this and other issues. (In fact, one Commerce participant in an International Visitors Sub-Regional Program on Free Trade has withdrawn from the two-week visit to the US, on orders from Secretary General Chelgham, in order to work on accession

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documents.) (Comment: In a two-on-one meeting with Temmar August 1, Ambassador said that Zaaf had been reluctant during the Geneva meeting to adjust the Algerian position on some smaller issues, and agreed to alter his stance only after intervention by Algeria's Ambassador Jazairy. This reluctance, Ambassador noted, was typical of someone at a director-level who had failed to see "the big picture" and let small issues obstruct progress. Jazairy had played a helpful role, Ambassador continued, and it would be critical to have strong leadership moving forward so that Algeria's mid-level directors and negotiators see the same "big picture" as Algeria's senior leadership.)

17. (C) Audio-Visual: Neither Djaaboub nor Zaaf addressed audio-visual, leading us to believe Algeria may need to make a concerted effort in this area. (Comment: July 2 press reports that the position of Minister of Communication will be temporarily filled and later completely dissolved indicate the GOA is seeking a smaller role in regulating information and media, a change which could have salutary effects on opening the audio-visual market.)

18. (C) Timeline: As per talking points, Ambassador noted that the USTR team in Geneva would be prepared to meet on September 16 if they receive the requested information by the end of August. Djaaboub and Zaaf again agreed that Algeria's new submissions would have to be completed before the end of August in order to allow time for translation and review prior to the September 16 informal meeting.

AREAS FOR IMPROVEMENT:
MULTILATERAL NEGOTIATIONS

19. (C) Working Party Draft Report: Ambassador noted that, while much progress had been made, the draft Working Party

report needed a great deal of work both to reflect the current state of play in Algeria's efforts to accede and to address outstanding issues. Djaaboub did not have a specific reaction to the status of the draft report.

¶10. (C) Interministerial Leadership: Ambassador underscored the importance of Djaaboub's personal leadership during the accession process not only within the Commerce Ministry but also among other ministries that have roles to play in accession on issues such as foreign exchange controls, import licensing, pricing policies, rules of origin, state enterprises, subsidies, SPS, TBT, trading rights, and transparency.

¶11. (C) Technical Assistance: Emphasizing US support for Algerian accession, Ambassador said USTR was willing to help Algeria address and resolve the remaining issues. For instance, USTR promised to provide Algeria with non-papers on SPS and the GATT articles relevant to state enterprises and trading rights to help them better understand what remains to be done. USTR was also prepared to provide a list of Member questions that Algeria received through the Secretariat that USTR believes must be answered more completely. Zaaf said that this kind of list would be important to have moving forward, and Ambassador said we would provide it.

DJAABOUB: STRONG SUPPORTER
OF ECONOMIC REFORM

¶12. (C) As evidence of his support for ongoing economic reform, Djaaboub cited his recent interaction with students who challenged him on WTO accession: Was the government really going to let foreign firms into Algeria, and why was WTO accession important? He said he encouraged the students to see no difference between Algerian companies and foreign ones. All companies looked after their own interests and served as economic drivers, so all firms were essentially the same. Regarding WTO accession, Djaaboub pointed out that he "never heard of a country that had lost" the quest for economic growth after acceding to the WTO. Proof was in the results. He noted for Ambassador that many Algerians have come to accept certain facets of economic reform, for example that insolvent state firms must declare bankruptcy. As former Finance Minister Benachenhou had once declared, Djaaboub said, Algeria did indeed suffer from a "complex of destruction complexes." Ambassador noted the process could be viewed as one of "creative destruction," where failing firms were allowed to die and then be replaced by more dynamic and competitive entities. While this caused short term disruptions that had to be managed, in the long term it would produce more jobs and more growth. Factories were not museums for preserving the past, but living economic organisms. As Darwin had noted, it was the species that failed to adapt that did not survive.

ERDMAN